



Framework Convention on Climate Change

Distr.: General
17 November 2011

Original: English

**Conference of the Parties serving as the meeting
of the Parties to the Kyoto Protocol**
Seventh session
Durban, 28 November to 9 December 2011

Item 7 of the provisional agenda
Issues relating to the clean development mechanism

Annual report of the Executive Board of the clean development mechanism to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol*

Part I

Summary

This report covers the work of the Executive Board of the clean development mechanism (CDM) during the period from 15 October 2010 to 26 October 2011, during which the CDM saw continued growth and the Board and its support structure undertook a wide range of work to enhance the mechanism. There are now more than 3,500 registered projects in 72 countries and a further 3,600 plus projects in the registration pipeline (from validation stage). In addition, there are 13 registered programmes of activities (PoAs) in 11 countries with a total of 1,103 component project activities and 26 PoAs in the registration pipeline. The report highlights achievements and challenges faced by the Board in its supervision of the mechanism. It also highlights work undertaken in the areas of accreditation, methodologies, and registration and issuance. Further, it includes a number of recommendations for action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

* This document was submitted after the due date in order to include information on the reporting period stipulated by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its second and third sessions.

Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction	1–5	3
A. Mandate.....	1	3
B. Scope of the report.....	2–3	3
C. Action to be taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol	4–5	3
II. State of the clean development mechanism.....	6–15	4
III. Achievements, challenges and future priorities.....	16–45	6
A. Simplifying the requirements of the mechanism	16–19	6
B. Accelerating processing times.....	20–21	7
C. Improving regional and subregional distribution.....	22–26	7
D. Engaging stakeholders.....	27–29	8
E. Enhancing transparency.....	30–33	8
F. Enhancing promotion of the mechanism.....	34–37	8
G. Future directions	38–45	9
IV. Work undertaken in the reporting period.....	46–72	10
A. Rulings	47–51	10
B. Regulatory matters.....	52–65	12
C. Regional and subregional distribution of project activities under the clean development mechanism	66–72	14
V. Governance and management matters	73–89	15
A. Evolution of the work of the Executive Board	74–76	15
B. Interaction with its forums and stakeholders	77–79	16
C. Membership issues.....	80–81	16
D. Election of the Chair and the Vice-Chair of the Board.....	82–83	17
E. Report on the status of financial resources for work on the clean development mechanism	84–89	18

I. Introduction

A. Mandate

1. In accordance with the modalities and procedures for a clean development mechanism (CDM),¹ the CDM Executive Board (hereinafter referred to as the Board) shall report on its activities to each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP). In exercising its authority over the CDM, the CMP is to review these annual reports, provide guidance and take decisions, as appropriate.²

B. Scope of the report

2. This annual report of the Board provides information on progress made towards the implementation of the CDM during its tenth year of operation (2010–2011),³ hereinafter referred to as the reporting period, and recommends decisions for adoption by the CMP at its seventh session. It refers to achievements, successes and challenges relating to the operation of the CDM, the governance of the mechanism, the quality, scale and applicability of the mechanism, and the resources available and required by the Board and its support structure during the reporting period. Further information is available on the UNFCCC CDM website,⁴ which is the central repository for all reports and other documentation relating to the Board.

3. The challenges and achievements during the tenth year of operation of the CDM, as well as the challenges still lying ahead, will be highlighted further by the Chair of the Board, Mr. Martin Hession, in his oral presentation to the CMP at its seventh session.

C. Action to be taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

4. The CMP, at its seventh session, taking note of the annual report of the Board, may wish:

- (a) To note the work of the Board in response to requests by the CMP at its sixth session;
- (b) To designate operational entities that have been accredited, and provisionally designated, by the Board (see chapter III B below);
- (c) To provide guidance on matters arising from this report.

5. The CMP is to elect the following to the Board for a term of two years upon nominations being received from Parties:

- (a) Two members and two alternate members from Parties not included in Annex I to the Convention (Non-Annex I Parties);

¹ Decision 3/CMP.1, annex, paragraph 5 (c).

² Decision 3/CMP.1, paragraphs 2 and 3.

³ The report covers the period from 15 October 2010 to 26 October 2011, in accordance with decision 1/CMP.2, paragraph 11, and decision 2/CMP.3, paragraph 7.

⁴ <<http://cdm.unfccc.int>>.

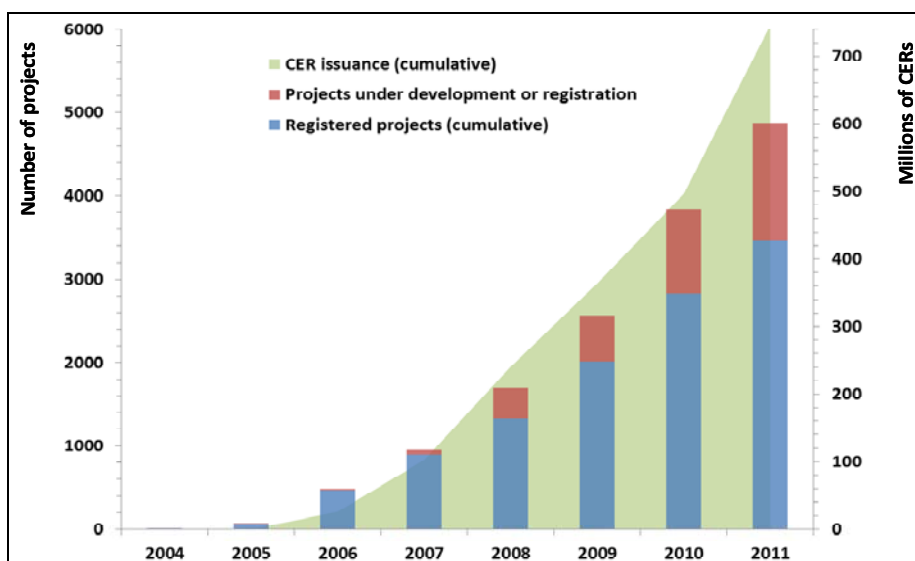
- (b) One member and one alternate member from the Alliance of Small Island States (AOSIS);
- (c) One member and one alternate member from the Eastern Europe region;
- (d) One member and one alternate member from Parties included in Annex I to the Convention (Annex I Parties).

II. State of the clean development mechanism

6. The CDM continued to grow over the reporting period, pushing the number of registered projects up to almost 3,500 projects in 72 countries and the issuance of certified emission reductions (CERs) to almost 750 million from 45 countries (see figure 1). About a further 3,400 projects are currently being vetted prior to submission to the Board. It is estimated that a further 380 million CERs will be issued for the remainder of the first commitment period under the Kyoto Protocol.

7. Significant in 2011 was the growth in the number of programmes of activities (PoAs), under which an unlimited number of similar component project activities (CPAs) across a county or region can be registered under a single administrative umbrella. The use of PoAs is seen as a way to scale up and extend the reach of the CDM, especially in underrepresented regions. There are now 13 registered PoAs in 11 countries, with a total of 1,103 CPAs.

Figure 1
Clean development mechanism projects and issuance of certified emission reductions



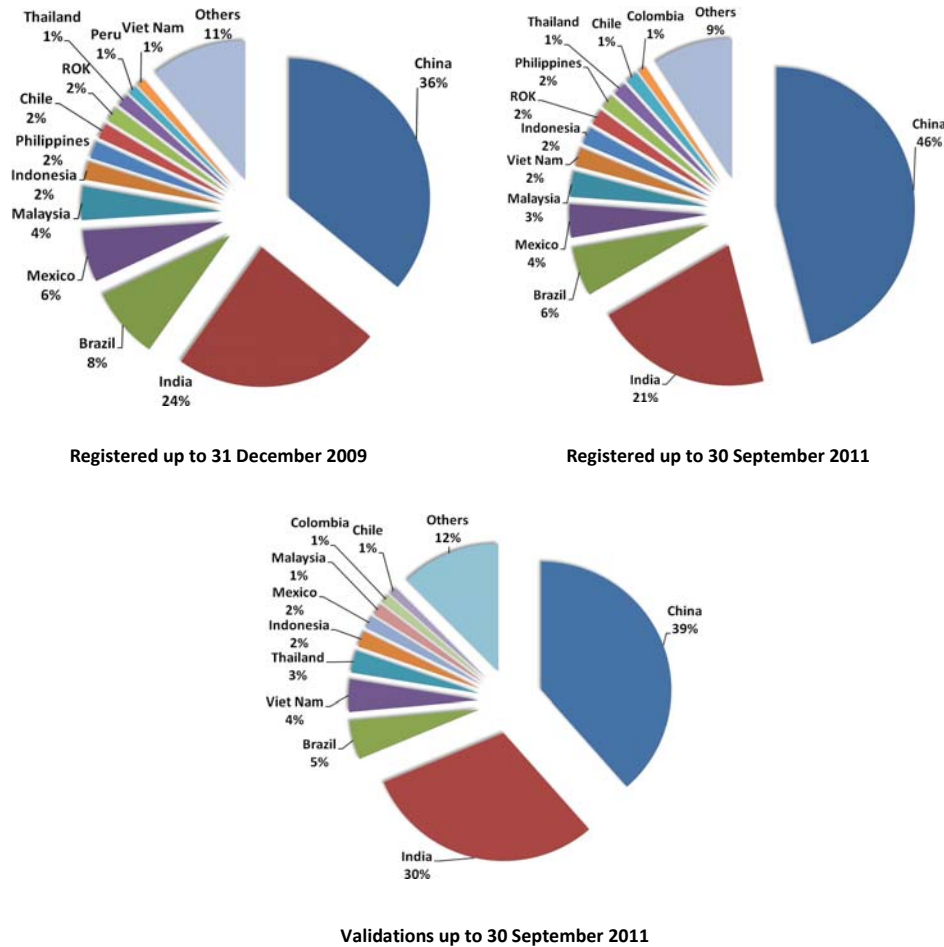
Note: CERs = certified emission reductions.

8. The growth is expected to continue in 2012 and confirms the value that Parties and stakeholders continue to place in the mechanism. At the same time, many market participants note a drop in the numbers of new projects entering the development phase, largely due to uncertainty regarding the level, timing and nature of new emission targets currently under negotiation at the international level.

9. It can be expected that the geographical distribution of projects will continue to change as more projects under development reach the registration phase (see figure 2). This reflects the growing maturity of the CDM as a market instrument that engages ever-broader regions. In particular, 69 projects are now registered in the African region (in comparison with 46 at the same time last year).

Figure 2

Regional distribution of clean development mechanism projects (by host Party)



Note: ROK=Democratic People's Republic of Korea, Viet Nam=Socialist Republic of Viet Nam.

10. Transactions involving CERs were valued at approximately USD 20 billion in 2010. Despite the fall from a peak in market value in 2008 of around USD 33 billion, largely as a result of declining CER prices under domestically legislated emissions trading systems, most significantly in Europe, the CDM remains today the world's largest generator of carbon offset credits.⁵

11. In the 10 years since Parties adopted the modalities and procedures that govern the CDM, the mechanism has evolved and matured. With increased maturity has come increased evidence of the CDM's contribution to sustainable development. Among the most

⁵ World Bank, State and Trend of the Carbon Market, 2011.

measurable impacts is transfer of technology to developing countries, which has been shown to be particularly strong in the early years of a host country's involvement. Overall, up to 44 per cent of projects registered and currently under development are estimated to involve technology transfer, although rates for specific project types range from 13 to 100 per cent.⁶

12. There is, however, growing unease among CDM stakeholders, including many host countries. This is evidently related to the uncertainty surrounding the negotiation of a second commitment period under the Kyoto Protocol. Further uncertainty arises from unclear levels of CER demand generated by domestic emissions trading systems, in terms of overall volume and the ineligibility of certain classes of CERs for use for compliance purposes within domestic emissions trading systems.

13. While waiting for clarity on these issues, stakeholders in the CDM are assessing the risks they face and taking decisions. A serious contraction is taking place in the businesses that develop projects and service the CDM market, in terms of both staffing and levels of activity. The Board views this development with great concern as there is today a considerable risk of losing the private sector engagement and momentum in the mitigation of climate change that the CDM has thus far been instrumental in generating.

14. Many market participants and analysts refer today to an increasing trend toward fragmentation of the market, in which competing crediting mechanisms and accounting frameworks are emerging from initiatives both in the private sector and from domestic legislation. Many commentators are concerned that this will bring increasing transaction costs for participants and lower environmental integrity.

15. In this context, the Board is reinvigorated in its determination to ensure, simultaneously, the environmental integrity of the CERs it issues and the efficiency and effectiveness of the mechanism itself. The Board considers that its role, within the guidance set by the CMP, is to ensure that the CDM remains a viable and effective instrument for use by Parties and the private sector to combat climate change and achieve the objective of the Convention.

III. Achievements, challenges and future priorities

A. Simplifying the requirements of the mechanism

16. The Board and its support structure have enhanced the efficiency of many processes under the CDM by, among other things, increasing the clarity of guidance and removing unnecessarily complex rules, all while ensuring the quality of emission reductions generated.

17. The Board developed guidelines on standardized emissions baselines that allow countries to calculate the typical emissions for an entire sector and create a list of technologies or measures that are automatically additional. The Board also adopted a straightforward approach for demonstrating additionality using the concept of "first of its kind" and provided guidance on common practice.

18. The Board worked in the reporting period to refine and consolidate the CDM general requirements into three new cornerstone documents: a project standard for project participants, a validation and verification standard for designated operational entities (DOEs), and a project cycle procedure that includes opportunities for direct communication between project participants and the secretariat.

⁶ UNFCCC, The contribution of the CDM under the Kyoto Protocol to technology transfer, 2010.

19. The Board is aware, however, that further simplification of the CDM requirements is necessary in the next year and beyond. In particular, the Board will conduct a comprehensive analysis of the value added by elements of its standards and procedures, with a view to determining whether simpler approaches could be used to achieve the same result, where necessary by applying conservative default values or discount factors to ensure environmental integrity. The Board considers this to be a crucial further task in ensuring the long-term efficiency and attractiveness of the mechanism.

B. Accelerating processing times

20. In December 2010, the UNFCCC secretariat cleared a stubborn backlog of requests for registration and issuance. This was achieved through re-focusing resources within the secretariat and engaging 25 external experts, who remain on call to help address spikes in submissions. This, and the Board's elimination of a backlog in the consideration of new methodologies, are clear examples of success in enhancing efficiency in the operation of the CDM. The Board undertakes to ensure that the processing of future registration, issuance, accreditation and methodology requests will remain within established timelines.

21. The Board expects a further influx of registration cases through 2012, as project participants seek to have their projects registered by the end of the first commitment period under the Kyoto Protocol. The Board is identifying ways to ensure the adequacy of resources to process this anticipated caseload.

C. Improving regional and subregional distribution

22. The Board's work in the reporting period on clarifying the rules for PoAs, establishing standardized baselines, and further simplifying the procedures for microscale project activities should increase the CDM potential to be scaled up in underrepresented regions.

23. In a further step, the Board agreed guidelines for "suppressed demand" that allow project developers setting up projects in underrepresented countries to assume levels of expected future development that would lead to higher emissions in the absence of a project, and hence be considered avoided by the project. These guidelines incentivize the introduction of clean development technologies, thereby helping to bypass the use of dirtier technologies in the development of a host country.

24. The Board also developed five methodologies specifically suited to projects in underrepresented regions and small communities. In addition to addressing climate change, these methodologies cover activities that help alleviate poverty, for example by purifying water and providing lighting in rural areas.

25. In addition, the secretariat has nearly completed its work to identify an agency to implement a loan scheme, agreed at CMP 6, to support the preparation of project design documents in underrepresented countries.

26. In the next reporting period the Board and its support structure will conclude on work to create standardized templates for validation and verification reports and the digitization of project information; reports on the potential for CDM project development in underrepresented regions, including profiles of greenhouse gas emission and reduction potentials in non-Annex I countries and a targeted action plan for outreach and capacity-building; and three more small-scale methodologies targeted specifically at underrepresented areas.

D. Engaging stakeholders

27. Much progress has been made to further open the CDM to stakeholder participation. This has gone hand-in-hand with progress in capacity-building, covering a range of priority topics and stakeholder groups. During the reporting period, the secretariat organized some 25 workshops, round-table discussions, forums and training sessions in 10 countries. These brought together project participants and other private and public sector stakeholders, DOEs, and designated national authorities (DNAs) to share information and solicit input that would be used to enhance the workings of the CDM.

28. The Board is currently identifying further measures, for inclusion in the coming two-year period of its business plan, to ensure greater involvement of stakeholders, including practitioners and industrial associations, in the design of standards and procedures. Similarly, the Board wishes to increase its interaction with other offset and crediting programmes in order to both share the experience of the CDM with them and learn from their operational and institutional approaches.

29. During the reporting period, the Board was confronted with the issue of human rights, specifically the rights of people affected or potentially affected by a CDM project. This caused the Board to initiate work to improve the CDM's rules with respect to stakeholder comment, in particular the extent to which comments are solicited and taken into account in the vetting of a project.

E. Enhancing transparency

30. In addition to increased interaction between the Board, its support structure and CDM stakeholders, the Board has adopted guidelines and changes in its procedures to achieve greater transparency in the mechanism. For example, in response to stakeholders and Parties in response to calls by stakeholders and Parties, the Board adopted guidelines on reviews of requests for registration and issuance, modalities for direct communication with stakeholders and revised procedures for handling communications to the Board.

31. During the reporting period, the Board translated key documents and summaries of its meetings into the official languages of the United Nations. In addition, the CDM website was completely revamped to improve access to information and the online catalogue of decisions was enhanced and revised. On the website, stakeholders can now better track the progress of submissions against agreed timelines and find the latest requirements, including up-to-date lists of items covered in completeness checks of submissions.

32. Also during the reporting period, the Board began publishing information on the performance of DOEs, in the interest of quality, transparency and accountability.⁷

33. The Board recognizes that further efforts need to be made in achieving yet more transparency in the mechanism and its governance and will be taking further measures in this regard under its business plan for the next two years.

F. Enhancing promotion of the mechanism

34. The Board recognizes the importance of promoting greater awareness and understanding of the CDM. In this regard, the Board worked during the reporting period to enhance awareness among stakeholders and policymakers of the benefits of the CDM, specifically its contribution to climate change mitigation and sustainable development.

⁷ See <<http://cdm.unfccc.int/Reference/Notes/accr/index.html>>.

35. The secretariat undertook an important study to examine the extent to which technology transfer has occurred through the CDM and to provide insights as to how this transfer can be expected to continue in the future.⁸ Forthcoming studies are expected prior to the CMP this year to provide further insight as to other sustainable development benefits of the CDM and levels of investments made in developing countries through the CDM.

36. The Board, via the secretariat, worked with DNAs through projects such as the DNA Communicators of the Year Showcase to help them disseminate information on the CDM; with project participants through the CDM Changing Lives Photo and Video Contest; with industry associations through participation in carbon market events; and with private sector communicators through projects such as the Radio for Africa contest and broadcasters club.

37. An important part of the Board's communication and outreach work is focused on enhancing its media outreach. Press highlights were issued after each Board meeting and the Chair of the Board, in his role as the principal spokesperson of the Board, made himself readily accessible to members of the press.

G. Future directions

38. When Parties met in Cancun, Mexico, in December 2010, they gave guidance focused on improving the efficiency of the mechanism, increasing the clarity of requirements, increasing stakeholder engagement and extending the reach of the CDM to those countries that have yet to significantly reap its benefits. The Board worked hard during the reporting period to respond effectively to this guidance and build further upon the improvements inspired by Parties and stakeholders in the mechanism over the past 10 years.

39. After much investment – intellectual and monetary – by Parties, the Board, and public and private sector stakeholders, the Board considers the CDM to be an effective tool for incentivizing low carbon development.

40. A central tenet of the Board's work as it enters the last year of the first commitment period is to ensure that the CDM is "fit for the future". The Board has, since its beginnings in 2001, endeavoured at every step to ensure the environmental integrity of the emissions reductions and removals for which it issues CERs. The Board is committed to continuing this crucial focus of its work but is increasingly of the view that this imperative must go hand-in-hand with a strengthening of the CDM's efficiency and effectiveness.

41. The Board considers that the considerable number of measures introduced, in particular over this last reporting period, help to position the CDM as a benchmark offset system within an increasingly diverse carbon market. The view of the Board is that the CDM is today a mature and well-functioning market-based mechanism that is indeed "fit for the future" and continues to improve. The Board is committed to continuing these strides in this direction in the coming years. While the negotiations on the international climate regime continue, the Board wishes to stress that the improvements made to the CDM enhance its flexibility and make it ready for any future use that Parties decide for it.

42. In this context, the Board believes that the CDM should continue, beyond 2012, to be used to strengthen the collaborative effort among Parties against climate change. It further considers that, under the guidance of Parties and in conjunction with strong engagement from stakeholders, the mechanism can be further adapted to ensure it meets the needs of Parties and stakeholders going forward. The potential for the CDM to engage the interest and strengths of both the public and private sector is still in its early development

⁸ UNFCCC, The contribution of the CDM under the Kyoto Protocol to technology transfer, 2010.

and the Board wishes to encourage Parties to further explore the full breadth of the mechanism's potential.

43. The Board is of the view that the CMP needs to provide a strong signal at its seventh session regarding the future of the CDM. As discussed above, the CDM is currently vulnerable to an exodus of the CDM participants, as well as consultants, brokers and other service providers, that have thus far been fully committed to the mechanism. This puts at risk the engagement of the public and private sectors in the mitigation of climate change, and with it the considerable benefits evident to date in terms of technology transfer and sustainable development. Further, it can be expected to have wider and longer-term repercussions for the collective mitigation effort at the global level. The lack of clarity regarding the future use of the mechanism also creates considerable difficulties for the Board in planning and continuing its work.

44. The Board is embarking on a significant policy dialogue to review past CDM experience and help ensure the readiness and positioning of the CDM to meet the challenges of the post-2012 period. This will engage representatives of the wider policymaking, research, private sector and NGO communities, as well as the traditional stakeholders in the CDM. The Board expects the dialogue to form a basis for a report to the CMP at its eighth session.

45. In this context, the Board wishes to draw the attention of Parties to the mandate contained in decision 3/CMP.1 for the first review of the CDM modalities and procedures to be completed by the end of the first year after the first commitment period. As this review is to be based largely upon recommendations from the Board, especially bearing in mind its long practical experience in supervising the CDM, the Board is planning to undertake further work in the remainder of this year and in 2012 to develop recommendations for consideration at the eighth session of the CMP. Such recommendations will make full use of the conclusions drawn from the policy dialogue, which is planned to be completed earlier in 2012.

IV. Work undertaken in the reporting period

46. This chapter describes the ongoing work of the Board and its response to the requests and encouragements set by the CMP. The work of the Board can be categorized into three broad areas: rulings; regulatory matters; and governance and management matters. The work undertaken in the reporting period is reported in this chapter in line with these categories. Annex I to this report contains a summary of the deliverables of the Board in response to the requests and encouragements of the CMP at its sixth session.

A. Rulings

1. Rulings related to accreditation

47. In the reporting period, the Board accredited and provisionally designated five new operational entities for validation and verification and extended the scope of accreditation of three previously designated operational entities. If the designations are confirmed, it will take the total number of operational entities designated for validation and verification and certification of emission reductions of projects to 38.⁹ The Board therefore recommends the entities listed in table 1 for designation by the CMP at its seventh session, for the sectoral scopes indicated.

⁹ <<http://cdm.unfccc.int/DOE/index.html>>.

Table 1
Entities accredited and provisionally designated by the Executive Board in the reporting period, including entities for which the scope of accreditation was extended

<i>Name of entity</i>	<i>Provisionally designated and recommended for designation for sectoral scopes^a</i>	
	<i>Project validation</i>	<i>Emission reduction verification</i>
Colombian Institute for Technical Standards and Certification	7	7
China Classification Society Certification Company	1–10 and 13	1–10 and 13
Indian Council of Forestry Research and Education	14	14
Hong Kong Quality Assurance Agency	1	1
Japan Consulting Institute ^b		4, 5 and 10
KBS Certification Services Pvt. Ltd	1, 3, 4, 5, 7, 12, 13 and 15	1, 3, 4, 5, 7, 12, 13 and 15
Carbon Check (Pty) Ltd	1–5, 8–10 and 13	1–5, 8–10 and 13
China Environmental United Certification Center Co., Ltd. ^b	4–7, 9 and 11–15	4–7, 9 and 11–15

^a The numbers indicate sectoral scopes. For details see <<http://cdm.unfccc.int/DOE/scopelst.pdf>>.

^b For the entities for which the scope of accreditation was extended, only the new sectoral scopes are indicated.

2. Rulings related to registration of project activities and issuance of CERs

48. The Board and its support structure continues to process requests for registration and issuance in a more efficient manner following the implementation of revised registration, issuance, and review procedures adopted by the Board in the previous reporting period. In addition, resource capacity that can deal with peak submissions has been increased in this reporting period by completing the planned recruitment as well as by expanding the number of trained external experts. At the same time, a realignment of staff within the secretariat is being undertaken to more efficiently utilize expertise in assessing project submissions.

49. During the reporting period, the caseload continued to grow. An overview of submissions is reflected in table 2.

Table 2
Clean development mechanism registration and issuance-related requests for the period from 1 October 2010 to 30 September 2011

<i>Request</i>	<i>Number of requests submitted in the reporting period</i>	<i>Number of re-submissions</i>	<i>Pending requests submitted during the reporting period</i>		<i>Number of finalized requests within the reporting period^d</i>
			<i>Awaiting commencement of completeness check</i>	<i>Already commenced completeness check</i>	
Registration	1 029	166	172	279	1 096
Issuance	1 400	101	209	296	1 365
Programme of activities	14	3	1	13	7
Renewal of crediting period	23			11	16

Revision of monitoring plans	209	67	187
Changes to project design documents	159	82	101
Deviations	72	–	–

Abbreviation: NA = not applicable.

^a Finalized requests comprise both requests submitted within the reporting period and requests submitted prior to the reporting period which had entered the processing pipeline.

50. More detailed statistics can be found on the UNFCCC CDM website.¹⁰

51. As at 30 September 2011, 304,572,886 CERs had been issued from the CDM registry, bringing to 744,977,315 the total number of CERs issued (table 3).

Table 3

Overview of clean development mechanism registry successfully completed transactions

<i>Transaction type</i>	<i>Total as at 30 Sept. 2011</i>	<i>Total for year ending 30 Sept. 2011</i>
Total issuance transactions	3 155	1 327
Total forwarding transactions to holding accounts of Annex I Parties in national registries	6 452	2 509
Total forwarding transactions to permanent holding accounts of non-Annex I Parties in the CDM registry	104	40
Total forwarding transactions to the Share of Proceeds Adaptation Fund holding account in the CDM registry	3 149	1 322

B. Regulatory matters

52. An overview of the regulatory documents (policy-related standards, procedures, clarifications and guidelines) approved or revised by the Board during the reporting period is included in Annex II to this report.

1. Standards

Standards related to accreditation of operational entities

53. During the reporting period, the Board worked on improving the standards with which applicant entities (AEs) and DOEs are to comply. In particular, the Board revised its “CDM accreditation standard for operational entities”, version 03, to include an interim measure for the initial qualification of validation and verification team members for complex technical areas. The Board also issued a clarification on the CDM accreditation standard with regard to the applicability of impartiality provisions to non-central sites of DOEs.

¹⁰ <<http://cdm.unfccc.int/Statistics/index.html>>.

54. The Board is continuing its work on the “Validation and verification standard” (VVS), consolidating existing requirements applicable to DOEs contained in various CDM documents as well as new requirements for which the Board provided guidance at its previous meetings. The Board expects to finalize the VVS at its sixty-fifth meeting, immediately prior to the seventh session of the CMP.

55. The Board also undertook work to review the adequacy of the stakeholder consultation process at the validation stage of projects and is developing improvements to the requirements of the CDM. The Board notes that there are a number of concerns in relation to the CDM modalities and procedures, in particular with regard to the periods allowed for consultation with stakeholders.

Standards related to clean development mechanism project activities and programmes

56. The Board also consolidated existing CDM requirements applicable to project participants into the CDM Project Standard (PS) to enhance the consistency of existing requirements that relate to project design and implementation as well as the monitoring of emission reductions. The Board expects to finalize the PS at its sixty-fifth meeting, immediately prior to the seventh session of the CMP.

57. Emissions baselines and monitoring methodologies are an integral part of the CDM. The work in this area was focused during the reporting period on improving the usability, broadening the applicability, and enhancing the clarity of methodologies and related guidelines. The goal has been to extend the benefits of the CDM into new areas while ensuring the quality of emission reductions produced. This work has included, among other things, the development of so-called top-down methodologies, designed specifically for underrepresented regions and types of projects.

58. During this reporting period, the Board approved 25 new methodologies, revised 48 approved methodologies, released one new tool, and adopted seven new or revised guidelines in the area of project-related standards (see <http://cdm.unfccc.int/EB/archives/meetings_10.html#64>). In particular to be highlighted in this area of work are the development of new methodologies for under-represented sectors such as the transport sector, the agriculture sector and the household sector, the introduction of positive lists for the demonstration and assessment of additionality for small-scale projects and the development of tables of calculation as part of methodologies to enhance their usability.

59. Among the work concluded on by the Board in the reporting period were standards that should prove vital in expanding the use of PoAs. The standards relate to the use of multiple methodologies, eligibility criteria and proving additionality under PoAs.

60. Also of note was the revision of the “Guidelines for demonstrating additionality of microscale project activities”. The revision expands the scope of these guidelines, clarifies that they are applicable to component project activities under PoAs and facilitates the assessment and approval of positive lists of renewable energy technologies submitted by DNAs.

61. The Board also examined alternative approaches to the demonstration and assessment of additionality, incorporating approaches for the use of penetration rates in a small-scale transport methodology, positive lists for microscale project activities as well as small-scale project activities.

62. A challenge faced by the Board in the reporting period was triggered by questions raised by its Methodologies Panel in relation to the environmental integrity of Trifluoromethane_{CHF} (HFC-23) projects under the CDM. After undertaking a study of the issue and drawing on information from numerous sources, including project participants, the Board initiated a revision of the relevant methodology.

2. Procedures

63. The Board took measures to improve the clarity, consolidate, and enhance the consistency of existing CDM regulatory documents. In this regard, the Board started the process of consolidating various procedures in the CDM project cycle, including the process for registration of CDM project activities and PoAs, issuance of CERs, and related actions to be followed by project participants, DOEs, the Board and the secretariat.

64. During the reporting period, the Board has worked to address significant deficiencies in validation and verification reports and has developed procedures for that purpose, which have not yet been approved as comments from stakeholders were sought. The Board will consider these procedures for approval at its fifty-sixth meeting, taking into account comments received from stakeholders.

65. In particular, it should be highlighted that the Board adopted, revised and/or provided clarifications of the following procedures and/or guidelines in the area of PoAs under the CDM:

- (a) “Procedures for review of erroneous inclusion of a CPA” (Version 03);
- (b) Clarifications regarding the “Procedures for registration of a programme of activities as a single CDM project activity and issuance of certified emission reductions for a programme of activities”.

C. Regional and subregional distribution of project activities under the clean development mechanism

66. Facilitating the equitable regional and subregional distribution of project activities remains a high priority for the Board, and the impact of regulatory decisions on this goal is a key criterion assessed by the Board in the development of new standards, procedures and guidelines.

67. The secretariat, on behalf of the Board, has significantly enhanced its interaction with DNA representatives to ensure a broader involvement in the mechanism. In this regard, members of the Chairing Committee of the DNA Forum have been invited to participate in broader stakeholder consultation events to ensure that the views of DNAs are represented in such events. The secretariat has also continued the training initiative for DNAs commenced in the previous reporting period. In this reporting period, project cycle training, including training on specific relevant methodologies, was provided to DNAs from the Asia Pacific, Eastern Europe, and Africa regions. Building on the feedback received to date, the next phase of the training programme will continue with the case study approach with a focus on standardized baselines and programmes of activities.

68. The secretariat has also commenced a “help desk” initiative to identify and, where possible, assist in resolving barriers for proposed CDM project activities in countries with fewer than 10 registered CDM project activities. Through this initiative the secretariat has directly contacted the project participants of such projects which have been undergoing validation or verification for more than one year. Specifically in the area of PoAs the secretariat has intervened directly with all programmes undergoing validation in Africa and non-African least developed countries to ensure that the latest requirements of the Board are understood by the coordinating/managing entities.

69. The work undertaken in the area of approval, development and improvements of standards has been described in section IV. B above and has been continuously conducted in a manner that takes account of the need to ensure broader participation in the mechanism. Of particular interest in this regard are:

- (a) Standardized baselines guidelines;
- (b) Suppressed demand guidelines;
- (c) Methodologies relevant to small communities such as the water purification methodology.

70. During the reporting period, the Board has developed five top-down methodologies applicable to small-scale project activities, aimed at underrepresented project activity types and regions, including applications such as solar water heating, efficient outdoor and street lighting technologies, water purification systems, biogas/biomass for household users, and water-saving technologies. The Board also revised the “Tool to calculate the emission factor for an electricity system” to provide, among other things, simplified calculation options aimed at countries with a paucity of data and that are least developed countries or countries with fewer than 10 registered project activities at the starting date of validation.

71. The secretariat commenced a formal procurement process to select an implementing agency for the loan scheme agreed at CMP 6 to support the preparation of project design documents in underrepresented countries. The bids have been evaluated and a preferred bidder has now been identified.

72. For enhancing the understanding of the work of the Board and for broadening the dissemination of its activities, the Board is translating summaries of its meeting reports into the six official languages of the United Nations and will translate key regulatory documents.

V. Governance and management matters

73. The Board and its panels and working groups met on a regular basis during the reporting period. In addition, the secretariat organized various meetings of the DNA Forum and DOE Forum and workshops with stakeholders. Part II of this annual report provides information on these meetings and workshops.

A. Evolution of the work of the Executive Board

74. The Board held an annual strategy retreat back-to-back with the sixty-third meeting of the Board. The retreat focused on how, within the guidance provided by the CMP, to position the CDM vis-à-vis the evolving needs of Parties and CDM stakeholders and what actions should be taken. The retreat reinforced the need to focus on the Board’s strategic goals and how they can be achieved, and the need to provide essential input into the preparation of its business and management plans. The Board agreed at the retreat on the following key priority actions:

- (a) Refresh and communicate the Board’s vision for the CDM and its mission;
- (b) Enhance the effectiveness of its planning and implementation, with clear monitoring of the implementation and adjustments being made if necessary;
- (c) Further simplify the standards and procedures for the CDM, including through conducting an analysis of the value added by their elements and an examination of whether less complex approaches may be applied to achieve the same result;
- (d) Launch a policy dialogue to review past CDM experience and help ensure the readiness and positioning of the CDM to meet the challenges of the post-2012 period;

(e) Make recommendations to the CMP, at its eight session, on the review of the CDM modalities and procedures, which is to occur by the end of one year after the first commitment period (2013), in accordance with decision 3/CMP.1, on the basis of, among other things, the results of the stakeholder dialogue;

(f) Ensure greater involvement of stakeholders in the design of standards and procedures and collaboration with other offset and crediting programmes;

(g) Ensure capacity to manage the expected increase in case submissions towards the end of the first commitment period.

75. Following the request by the CMP, through its decision 3/CMP.6, to assess, as necessary, the decision-making processes contained in the “Rules of procedure of the Executive Board of the clean development mechanism”, the Board analysed its decision-making process and agreed not to recommend to the CMP to change the rules of procedure. The Board agreed to continue in the next year to review the manner in which it reaches decisions within the scope of the current rules and procedures.

76. In order to streamline the work of the Board, the Board also revised its meeting agenda, structuring it by product instead of by subject matter as done in the past, providing a much stronger governance and strategic focus to the meetings. This new agenda aims to separate the policy discussions from the case-specific matters and follows the agreed hierarchy of decisions and official documents of the Board as requested by the CMP. Further efforts to improve consistency in decision-making are ongoing. A new and improved version of the catalogue of decisions has been released.

B. Interaction with its forums and stakeholders

77. The Board and its support structure greatly expanded its work with CDM stakeholders, including DNAs through the DNA Forum; DOEs through the DOE Forum, the Chair of which reports to each meeting of the Board; project participants; and other stakeholder groups. During the reporting period, the secretariat organized some 25 workshops, round-table discussions, forums and training sessions in 10 countries.

78. A significant part of this work is undertaken as part of the secretariat’s responsibility for coordinating the Nairobi Framework, a multi-agency initiative started in 2006 by then United Nations Secretary-General Kofi Annan to help spread the benefits of the CDM. The Framework partners raise awareness about the CDM and remove barriers to participation in the mechanism through information sharing and capacity-building.

79. During the reporting period, the Board also adopted modalities and procedures designed to enhance direct communication with stakeholders. They provide for development of detailed steps, to be incorporated in established project registration and issuance procedures, for project participants to communicate on project-specific matters. They also include modalities for direct communication between the Board and stakeholders on policy issues, and provide for increased involvement of stakeholders in shaping the priorities and work of the Board, by giving stakeholders an opportunity to comment on the draft annotated agenda of each Board meeting.

C. Membership issues

80. At CMP 6, new members and alternate members of the Board were elected to fill vacancies arising from the expiration of terms of tenure. During the reporting period, the Board comprised the members and alternate members listed in table 4.

Table 4
Members and alternate members of the Executive Board of the clean development mechanism

<i>Members</i>	<i>Alternate members</i>	<i>Nominated by</i>
Mr. Pedro Martins Barata ^a	Mr. Lex de Jonge ^a	Annex I Parties
Mr. Maosheng Duan ^a	Ms. June Hughes ^a	Non-Annex I Parties
Mr. Philip M. Gwage ^a	Mr. Paulo Manso ^a	Non-Annex I Parties
Mr. Victor Kabengele ^{b, c}	Ms. Fatou Gaye ^b	African regional group
Ms. Diana Harutyunyan ^a	Ms. Danijela Bozanic ^a	Eastern European regional group
Mr. Martin Hession ^b	Mr. Thomas Bernheim ^b	Western European and other States regional group
Mr. Shafqat Kakhakel ^b	Mr. Hussein Badarin ^b	Asian regional group
Mr. Clifford Mahlung ^a	Mr. Asterio Takesy ^a	Small island developing States
Mr. Daniel Ortega-Pacheco ^b	Mr. Raúl Castañeda ^{b, d}	Latin America and the Caribbean regional group
Mr. Kazunari Kainou ^{b, e}	Mr. Peer Stiansen ^b	Annex I Parties

^a Term: two years ending at the first meeting in 2012.

^b Term: two years ending at the first meeting in 2013.

^c Mr. Tosi Mpanu Mpanu resigned effective 10 February 2011.

^d Mr. José Miguel Leiva resigned effective 20 July 2011.

^e Mr. Akihiro Kuroki resigned effective 21 September 2011.

81. The Board reiterates its concern that neither the Conference of the Parties nor the CMP has established an international legal framework for privileges and immunities for Board members performing their functions relating to the CDM. Members are entitled to privileges and immunities only in Germany, in accordance with the Headquarters Agreement of the secretariat, and in countries where Board meetings are convened pursuant to an agreement with the host country that contains provisions on privileges and immunities. The Board urges the CMP to take further action as a matter of urgency to ensure that Board members are fully protected when taking decisions for which they have been mandated. The Board notes the progress of deliberations on this matter and requests the CMP to find an interim solution at CMP 7, pending the conclusion of a long-term solution.

D. Election of the Chair and the Vice-Chair of the Board

82. The Board, at its fifty-ninth meeting, elected Mr. Martin Hession, a member from an Annex I Party, and Mr. Duan Maosheng, from a non-Annex I Party, as Chair and Vice-Chair, respectively. Their tenures as Chair and Vice Chair will end at the first meeting of the Board in 2012.¹¹

83. The Board expressed its appreciation to the Chair, Mr. Hession, and Vice-Chair, Mr. Maosheng, for their excellent leadership of the Board during its tenth year of operation.

¹¹ Rule 12 of the rules of procedure of the Board. See <<https://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=31>>.

E. Report on the status of financial resources for work on the clean development mechanism

84. This chapter presents information on income and expenditure up to 30 September 2011.

85. Table 5 shows a total of operating income of USD 67,449,852 as at 31 December 2010. The table indicates a carry-over balance from 2009 of USD 35,972,219 and 2010 revenue from fees and shares of proceeds by type.

Table 5
Status of Income 2010–2011
(United States dollars)

<i>CDM Trust Fund fees and carry-over</i>	<i>2010</i>	<i>2011^a</i>
Carry-over from previous year	35 972 219	38 045 707
Fee income during the year	33 687 822	55 738 890
<i>Methodology fees^b</i>	27 767	11 908
<i>Registration fees^c</i>	15 046 459	17 669 110
<i>Shares of proceeds^d</i>	18 481 617	37 812 590
<i>Accreditation fee</i>	108 120	107 005
<i>Accreditation process-related fees</i>	23 859	138 278
Reallocation of prompt start	- 3 513 189	-
Interest	1 303 000	-
Total operating income for the year	67 449 852	93 784 597

Note: USD 45 million held in reserve (see report of the forty-fifth meeting of the Executive Board) is not included above. Interest received in previous years to be used in the CDM loans scheme as defined in decision 3/CMP.6 (USD 4,402,055) is included above.

^a 1 January to 30 September 2011.

^b This fee is based on the average annual issuance of certified emission reductions (CERs) over the first crediting period and is calculated as a share of proceeds to cover administrative expenses, as defined in decision 7/CMP.1, paragraph 37. Projects with annual average emission reductions of less than 15,000 tonnes of carbon dioxide equivalent are exempt from the registration fee, and the maximum fee applicable is USD 350,000. This fee is considered to be a prepayment of the share of proceeds to cover administrative expenses.

^c A non-refundable submission fee of USD 1,000 is payable at the time a new methodology is proposed. If the proposal leads to an approved methodology, the project participants receive a credit of USD 1,000 against payment of the registration fee or a prepayment of share of proceeds.

^d The share of proceeds, payable at the time of issuance of CERs, is USD 0.10 per CER issued for the first 15,000 CERs for which issuance is requested in a given calendar year, and USD 0.20 per CER issued for any amount in excess of these per year.

86. Table 5 above shows a total operating income of USD 93,784,597 for 2011. The table indicates a carry-over balance from 2010 of USD 38,045,707 and 2011 revenue from fees and shares of proceeds by type amounting to USD 55,738,890. Fees and shares of proceeds were estimated in the 2011 management plan at USD 33,200,000.

87. Voluntary contributions in kind have been received in support of the following workshops: The Gambia hosted a meeting of the Small-Scale Working Group and Ecuador hosted a meeting of the Board. In addition, financial contributions and a contribution in kind were received from Norway and the United Arab Emirates which jointly funded a Carbon Capture Storage workshop.

88. During 2010, USD 29,404,145 was incurred as expenditure against an approved budget of USD 34,525,997 amounting to a budget utilization of 85.2%.

89. At its fifty-ninth session the Board approved the management plan and related budget amounting to USD 39,733,419 to cover the CDM activities for the calendar year 2011, which represented a USD 5.2 million or a 15 per cent increase above the prior year's budget. As shown in table 6, an expenditure of USD 26,977,207 has been incurred during the reporting period against the approved budget. On the basis of projected expenditure, it is expected that the budget utilization rate will approach nearly 100%.

Table 6
Comparative status of expenditure against budget
 (United States dollars)

<i>Budget and Expenditure</i>	<i>2010</i>	<i>2011^a</i>
Budget	34 525 997	39 733 419
Expenditure	29 404 145	26 977 207
Expenditure as percentage of budget	85.2	67.9

^a 1 January to 30 September 2011.